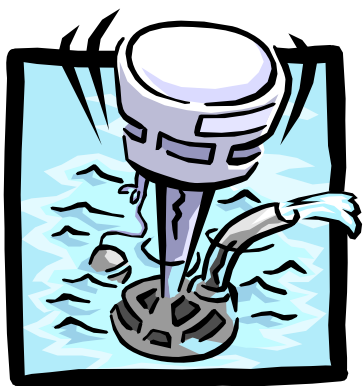

The Loan Arranger

Fall 2005

Revolving Loan and Operator Certification Section
Environmental Science and Services Division
Michigan Department of Environmental Quality **DEQ**

SRF Loan to Fix Sanitary Sewer Overflow Problem by David Worthington

In recent years, Muskegon County's Wastewater Management System has had, like many other community systems throughout the state, recurring discharges of sanitary sewage, known as sanitary sewer overflows (SSOs). SSOs are discharges of raw or poorly treated sewage from systems designed for the conveyance of domestic, and sometimes industrial, sewage, but not storm water. These SSOs may be released to city streets or other land surfaces, basements, rivers, lakes, or streams. They are illegal overflows and can create a serious health or environmental hazard. As a result, the Michigan Department of Environmental Quality (DEQ), under the authority of Parts 31 and 41, of the Natural Resources and Environmental Protection Act, PA 1994 451, as amended, has been carefully attempting to identify SSO discharges statewide and to ensure that systems are upgraded properly so these overflows will no longer occur.



In the case of Muskegon County (County), the SSO have resulted from poorly functioning, antiquated pumping equipment and power failures, and not from inadequate capacity to carry flows. County staff have done their best to control the spills, ensuring they do not flood into customer's homes, but that has not spared area waterways from being polluted with raw sewage. Substantial fines had to be paid, although no enforcement orders or court decisions exist to place a mandate on the County to construct improvements.

Not surprisingly, overhauling the system to replace or repair worn-out pumping stations (many of which were built in the 1960s and 1970s, with a 25-year life span) in the County is an extremely costly endeavor. This is where the State Revolving Fund (SRF) has been of tremendous help, with its all-time low interest rate of 1.625 percent dangling as an inviting carrot. The County liked the sound, taste of that carrot, and successfully applied in the fourth quarter of Fiscal Year 2005 for a \$17,500,000 SRF loan to fund the first phase of substantial improvements needed to correct the deficient equipment in its wastewater system. Loan closure occurred on September 22, 2005, and construction could begin as early as November 1, 2005. Most of the work should be completed by spring 2007. An approved contract with its large municipal customer base of 14 cities and townships will allow the county to generate sufficient revenue to pay off the loan and continue operating and maintaining its wastewater collection and treatment system. Loan repayments will commence in 2008.

Included in the project description is the following:

- A new pump station to serve Norton Shores and Muskegon Heights, closure of four smaller stations currently serving the same area, and installation of a gravity sewer to connect into the new station;
- Two new pump stations in Whitehall and a force main to connect them to serve Montague and Whitehall;
- Installation of a gravity sewer between two pump stations in Muskegon and closure of one old station;
- Rehabilitation of two pump stations that serve Muskegon and Egelston Townships; and
- A new telemetering Supervisory Control and Data Acquisition system will enable County staff to monitor equipment from a centralized computer to dramatically improve response time in emergencies (such as power failures).

This badly-needed SRF project would not have been possible without the excellent work and cooperation of County officials, Prein & Newhof engineers, DEQ Grand Rapids district staff, and others. Additional SRF loan applications are anticipated to complete the work needed in the County to correct SSO problems, and, indeed, many other communities struggling with the same issues would be well-advised to follow its fine example.

Thoughtful planning now may enable a community to be ready to apply for DWRF, SWQIF, and/or SRF assistance in FY06 and beyond. Contact the Revolving Loan and Operator Certification Section (addresses on back page) for more information on community participation in the loan programs.

Public Participation Requirements for Loan Projects by Jeff Herrold

The Department of Environmental Quality (DEQ) offers two low-interest loan programs to qualifying municipalities to correct wastewater transport and treatment problems — the State Revolving Fund (SRF) and Strategic Water Quality Initiatives Fund (SWQIF) Programs — and a third program for both public and private drinking water suppliers — the Drinking Water Revolving Fund (DWRF) Program. At the heart of these programs is the concept of public participation in the decision-making behind a project proposed for loan funding.



Public participation is more informal in the early planning phase and highly formal when the time comes to finalize a project plan for submittal to the DEQ. Public participation ideally begins with one or more meetings held during project development to discuss the various alternatives being considered. These meetings can be held as part of a regular meeting of the county commission, city council, or township board. A brief summary of each meeting, often contained in a newsletter or newspaper article, can be included in the final project plan submitted to the DEQ.

In addition to public meetings, other methods of involving the public such as newspaper articles, local access television announcements, and fliers included with utility bills are ideas to consider. For a controversial project, the establishment of a citizen's advisory group to provide input to decision-makers can be helpful. These additional steps are highly recommended and could prove critical to the public acceptance of your project.

Once your staff or consulting engineer has developed a project plan, a formal public hearing must be held prior to the adoption and submittal of the final project plan. The date, time, and place of this hearing must be conducive to maximizing public input; an evening hearing at a central location is usually best. For projects that will serve more than one community, hearings at several locations in the affected areas are highly recommended.

DEQ regulations require that a notice of the public hearing must be advertised at least 30 days prior to the hearing in a newspaper of general circulation in the communities affected by the proposed project. A copy of the advertisement and an affidavit confirming its publication must be included in the final project plan. Please also note that the draft project plan must be available to the public for examination for at least 30 days prior to the hearing, with the location of its availability mentioned in the advertisement. City offices, township halls, and public libraries are good locations to use.

The presentation of the project plan at the hearing must include the following:

- (a) The problems to be addressed by the project;
- (b) The principal alternatives that were considered;
- (c) A description of the recommended alternative;
- (d) A description of the anticipated social and environmental impacts associated with the recommended alternative and the measures that will be taken to mitigate adverse impacts; and,
- (e) The annual, quarterly, or monthly charge(s) to the typical residential customer that will result from the project, as compared to current charges.

If no one from the public attends the formal public hearing held for an SRF, SWQIF, or DWRF loan project, the public hearing may be opened and closed without a detailed presentation of the project plan; however, a transcript or recording of the event must still be submitted with the final project plan in order to document this action. Please note that a news reporter is considered a member of the public, as are members of the applicant's governing body (e.g., city council or township board members).

For SRF and SWQIF project public hearings, a verbatim transcript of the public hearing, recorded by a court reporter or transcribed by a stenographer from a recording of the proceedings, must be included in the final project plan. The transcript must also include the comments received and the issues raised by the public during the hearing. The use of a court recording service is the more preferable option. If an audio tape is used as a substitute, the tape must be transcribed into a word-for-word transcript. A summary of the hearing or meeting minutes will **not** be acceptable.

For a DWRF project hearing, either a verbatim transcript (most preferred), an audio cassette tape recording (acceptable), or a VHS videotape recording (least preferred) must be submitted with the final project plan. Again, a summary of the hearing or meeting minutes will **not** be acceptable.

In any meeting or hearing where recording equipment is used, a check should be made before you start to ensure that the equipment is in proper working order. Problems have arisen for several past projects where the recording tape ran out prematurely or the equipment power cord was accidentally dislodged during the proceedings.

The final project plan submitted to the DEQ must contain the following items:

- A list with the names and complete addresses of the people who attended the public hearing (a typed list is high preferred).
- A copy of all written comments that were received during the public comment period for the proposed project.
- The applicant's responses to the comments received.
- A description of any changes, which were made to the project because of the public participation process.
- A resolution from the applicant's governing body to formally adopt the project plan and implement the selected alternative (or, if applicable, a statement of intent from a water supplier who is not a municipality).
- Where an applicant's authority to finance or construct the proposed project requires contractual arrangements with other municipalities which are not yet in place, a resolution of adoption from **each** of the participating units of government must be included in the final project plan. Please note that all resolutions must be adopted **only after** the public hearing has been held and the formal public comment period has ended.

If you have any questions about public participation in loan program projects, please feel free to contact

Mr. Jeff Herrold at either 517-335-1977 or www.herroldj@michigan.gov.

Updating Information on Proposal 2 by Chip Heckathorn

In November of 2002, Michigan voters overwhelmingly passed the Great Lakes Water Quality Bond referendum, which appeared as Proposal 2 on that year's ballot. The initiative authorized the state to borrow up to \$1 billion to finance water pollution control projects, with the borrowed funds to be deposited into the State Revolving Fund (SRF) or the newly created Strategic Water Quality Initiatives Fund (SWQIF). Both funds provide low interest loan financing to local units of government to construct needed water quality improvement projects. The only statewide ballot question to pass that year, Proposal 2 garnered nearly 60 percent of the vote. The Michigan Infrastructure and Transportation Association's predecessor, the Associated Underground Contractors, as well as a number of the state's environmental groups, were instrumental in seeing Proposal 2 enacted.

It is only natural, nearly 3 years later, to ask: "What ever happened to the Great Lakes Water Quality Bonds?" Only one series of Proposal 2 bonds (\$100 million) have been issued in 2003. A small portion was used to award SWQIF loans to Ann Arbor and Clinton Township (Macomb County) to initiate footing drain disconnection projects to address sanitary sewer overflow problems. A number of other communities are now engaged in planning efforts in preparation for applying for SWQIF funds for similar projects. Unfortunately, only marginal interest has been expressed by municipalities to date in the other type of eligible SWQIF project, on-site system upgrades.



Proposal 2 resources available to the SRF have not been utilized so far, but only because the resources have not been needed. The downturn in the state's economy, which began in 2000, and cuts to state revenue sharing, coupled with a significant "lull" in new projects from the program's largest borrowers, saw overall demand for the SRF drop each year from 2001 through 2005. Michigan has been able to fund **every** SRF application received since 2003 using traditional fund resources, without needing to utilize any Proposal 2 borrowing. In fact, in the three years since the passage of Proposal 2, Michigan has funded over \$544 million in SRF loans.

Proposal 2 passed in large part because it was clear that as Michigan's wastewater infrastructure continued to age, the lending capacity of the State Revolving Fund would not be able to keep pace with the needs in the state. That fact has not changed. Demand for SRF financing has taken a jump in Fiscal Year 2006, the first witnessed since Fiscal Year 2001. It is anticipated that significant increases in demand will be seen in Fiscal Years 2007 through 2010 as large projects in the Middle Rouge River Basin get underway and the fiscal situations of local governments hopefully improve.

The State Treasurer has every intention of selling/issuing additional Proposal 2 bonds when those funds are needed. The Great Lakes Water Quality Bonds will permit both the SRF and the SWQIF to "revolve" at higher annual lending levels for decades to come, providing critical protection for the state's water resources and a welcome boost to Michigan's construction industry.

DEQ Announces Loan Commitments through SRF and DWRF

Director Steven Chester has announced seven new loan commitments from the Clean Water State Revolving Fund (SRF) and six from the Drinking Water Revolving Fund (DWRF). The SRF provides low-interest financing for local units of government to make needed improvements to wastewater collection and treatment facilities, while assistance from the DWRF finances improvements to the public drinking water systems. The loans are tendered through the Michigan Municipal Bond Authority. These thirteen loans total nearly \$150 million.

The funded SRF projects include:

- \$1,620,000 in assistance to the George W. Kuhn Drainage District in Oakland County to complete work to abate the effects of combined sewer overflows to the Clinton River from the Twelve Towns area. Over \$100 million in SRF assistance has now been tendered to this project.
- A \$72,895,000 loan to Dearborn to construct retention/treatment facilities to address combined sewer overflows to the Rouge River.
- A loan of \$15,505,000 to Genesee County for the second of four projects to provide interceptor relief for the sewer systems tributary to the Anthony Ragnone Wastewater Treatment Plant. The system serves 24 communities in Genesee, Saginaw, and Shiawassee counties. The relief sewers will eliminate sanitary sewer overflows currently occurring during wet weather.

- \$4,680,000 in loan assistance to Wayne County to finance the first in a series of upgrades at the Wyandotte Wastewater Treatment Plant, which serves 13 communities in the downriver area.
- A loan of \$3,415,000 to the city of Saginaw. The loan finances the first part of a three-segment project that will upgrade the city's wastewater treatment facility.
- \$17,500,000 in financing to Muskegon County to rehabilitate and replace pump stations in the collection system tributary to the county's wastewater management system, which serves 13 Muskegon County communities.
- \$2,040,000 in loan assistance to the city of Adrian for system improvements to eliminate wet weather induced overflows of sanitary sewage to the River Raisin.

These commitments bring SRF financing awarded to Michigan communities to date to over \$2.25 billion. These projects are further examples of the commitments being made by local units of government in Michigan to ensure protection of the state's valuable water resources and the public health of its citizens.

The funded DWRF projects include:

- \$1,780,000 to the village of Caro to upgrade its supply wells and provide facilities that will enable the village to meet new drinking water standards, which establish lower acceptable levels of arsenic in public water supplies.
- A \$2,500,000 loan to Marine City for the construction of improvements to its water treatment plant.
- \$690,000 in loan assistance to Sanilac County to upgrade the drinking water treatment capabilities in the village of Carsonville for the removal of arsenic.
- Two loans totaling \$25,975,000 to the city of Detroit to construct improvements at the Lake Huron Water Treatment Plant and replace deteriorated water mains within the city that have reached the end of their useful life.
- \$850,000 to Shiawassee County on behalf of the village of Byron. The funds will be used for upgrades to the village's drinking water system, including storage improvements, new water mains to complete looping and additional treatment capabilities for the removal of arsenic.



The improvements financed by these loans will ensure compliance with the requirements of the Safe Drinking Water Act and protect the public health of system users in these communities. Since the inception of Michigan's DWRP program in 1998, over \$380 million in assistance has been tendered.

"We continue to make unprecedented progress in protecting and enhancing Michigan's water resources," said Director Chester. "Our partnering with local units of government has an added bonus, since these projects will also stimulate construction activity and represent a real investment in Michigan's environmental and economic future."

Interest Rates Set for Fiscal Year 2006

Director Steven Chester has set the interest rates for the three revolving loan funds, the SRF, the DWRP, and the SWQIF, for Fiscal Year 2006. These rates are effective through September 2006.

| Loan Program | Interest Rate |
|--------------|---------------|
| SRF | 1.625% |
| SWQIF | 1.625% |
| DWRP | 2.125% |

These rates were set based upon the demand for financing in the coming year, anticipated future demand for financing, consideration of market interest rates available to borrowers, and evaluation of additional costs to borrowers for program participation in each fund. They were generated using the Interest Rate Methodology established in June 2003.

These rates will be incorporated into the State's Intended Use Plans for submission of capitalization grant applications, in accordance with the 1987 amendments to the federal Clean Water Act, and the 1996 amendments to the federal Safe Drinking Water Act.

Deadlines for Submission of Project Plans for the Fiscal Year 2007 Project Priority Lists

Drinking Water Revolving Fund – Project Plans must be received in our office by close of business OR postmarked no later than May 1, 2006.

State Revolving Fund/Strategic Water Quality Initiatives Fund– Project Plans must be received OR postmarked no later than July 1, 2006.

Grants Program Passed Into Law by Chip Heckathorn

The recent passage by the Michigan Legislature of a 6-bill package, Senate Bills (SB) 789, 790, and 799 along with House Bills (HB) 4572, 4573, and 5297, will create a new grant program to further assist Clean Water State Revolving Fund (CWSRF) and Strategic Water Quality Initiative Fund loan (SWQIF) applicants. Up to \$40 million will be diverted from the SWQIF to provide grants to municipalities, to cover 90 percent of the costs incurred to complete a loan application (project planning, project design and revenue system development). Recipients would be limited to \$1 million in grant assistance. The legislation stipulates that grant funds would have to be repaid, with interest, if the project does not proceed to construction using loan assistance from the CWSRF or the SWQIF. Grant awards will be available during a two-year window, to assist projects seeking loan assistance in Fiscal Year 2007 and beyond. Potential applicants that have already initiated project planning would still be eligible to apply. The bills also make project planning an eligible loan expense under both the CWSRF and SWQIF as with the Drinking Water Revolving Fund to further assist loan applicants not receiving grant funds to cover planning.

HB 4572 requires the Department of Environmental Quality and the Michigan Municipal Bond Authority, within 6 months of enactment, to establish an application and review process. The bills were submitted to the Governor for signature on November 17 and November 21. It is anticipated that grant application forms and detailed application guidance will be available sometime next spring. Consult the Clean Water Funds website for updates on the new grant program, or call program staff at 517-373-2161 for more information.



If you know someone, who would like to be added to *The Loan Arranger* mailing list, or have an address change, please e-mail the editor, Ms. Deana M. Kinney, at Kinneydm@michigan.gov

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